UZBEKISTAN

In 1998, the U.S. trade deficit with Uzbekistan was $113 million, a decrease of $82 million from 1997. U.S. merchandise exports to Uzbekistan were $147 million, a decrease of $87 million from the level of exports in 1997. Uzbekistan was the United States' 99th largest export market in 1998. U.S. merchandise imports from Uzbekistan were $34 million, down $5 million from 1997.

IMPORT POLICIES

The GOU restricts imports by means of a system of import contract registration that severely limits the availability of foreign exchange. In 1996, the GOU was well on its way to creating a convertible currency. However, export revenue shortfalls caused by poor harvests that year inspired the GOU instead to tighten the earlier system of foreign exchange quotas. Since then, the GOU has periodically made the system yet more rigorous in response to continued pressure on foreign currency reserves have continued to dwindle. In 1998 the number of importers given convertibility quotas was cut by one third. The remaining two thirds saw their quotas slashed in half.

Although its primary use is now to lower the overall level of imports and thereby husband scarce foreign exchange, the import contract registration system was designed to enforce Uzbekistan's import substitution development strategy. The GOU uses the system to ensure that scarce foreign currency is used primarily to import capital rather than consumer goods. A recent formal survey of foreign companies concluded that currency restrictions are the worst of many serious obstacles to doing business in Uzbekistan.

Foreign companies or foreign joint ventures importing capital goods with their own funds held outside Uzbekistan are also subject de facto to the import registration system. Although a 1998 presidential decree exempts such cases from the registration requirement, foreign businesses report that their Uzbek bankers strongly recommend they register anyway.

Once over this hurdle, imports face the next -- the State Customs Committee. Customs clearance is a tedious and capricious bureaucratic process. Even capital equipment imports for U.S.-Uzbek joint ventures are subject to substantial processing delays and often remain in customs for two to three months. In one recent case an American investor waited for three months to process equipment worth four million dollars through customs and then was forced to pay 2,500 dollars in customs storage costs. Delays affect all imports as there is no procedure for releasing goods under bond.

At the end of 1998, the president announced that tariff and excise duty schedules would be revised in early 1999. Although Uzbekistan's tariff rates have not been extreme by international standards, its excise taxes form an effective barrier to legal imports of certain goods. The excise tax schedule discriminates against imports of goods subject to the tax. Imported liquor, for example, is subject to an excise tax of 90 percent, whereas the rate for domestically produced spirits ranges from 40 to 65 percent.

STANDARDS, TESTING, LABELING AND CERTIFICATION

Uzbekistan does not accept international technical standards such as ISO 9000, preferring its own arbitrary set of standards. Despite regulations to the contrary, customs officials routinely reject foreign certifications of conformity to these standards. Perishable goods are subject to burdensome phytosanitary tests. Customs officials often take excess test samples of goods subject to technical standards for their own use.

There are three joint ventures that perform price verifications and otherwise assist in import contract registration. One of these, Intertek testing services, is also accredited to perform pre-shipment inspection (PSI) to verify the quality of contracted goods. Only tobacco and alcohol are currently subject to mandatory PSI, but importers may choose to contract PSI for other goods. A December 1997 decree requires the Ministry of Foreign Economic Relations to approve import contract registration of pre-inspected goods within two days. Since Intertek only received accreditation recently, this decree has not yet had an appreciable impact.

GOVERNMENT PROCUREMENT

GOU procurement practices are similar to those of many countries, with tenders, bid documents, bids and a formal contract award. Many tenders are announced with suspiciously short deadlines and are awarded to domestic firms with government connections. A draft government procurement law produced in mid-1998 by an inter-ministerial working group with support from a USG-provided advisor has not been submitted to parliament. The goal of this project is legislation conforming to WTO competitive bidding standards. The GOU has recently established a new agency with oversight over procurement practices by all levels of government.

EXPORT SUBSIDIES

The GOU grants some tax benefits, such as tax holidays for Uzbek or foreign joint venture exporters. To conserve foreign exchange the government has imposed a foreign currency surrender requirement on exporters. Exporters must each quarter surrender 50 percent (raised recently from 30 percent) of projected earnings of hard currency at the official exchange rate. Since the government and not the firm projects these earnings (on the basis of the previous year's receipts), the surrender quota could amount to more than 50 percent of real earnings if export volume or prices drop. Banks are required to convert all earnings as they come in each quarter until the government-determined quota is met. This feature deprives firms of access to their own supply of hard currency for lengthy periods. Finally, since the official exchange rate is roughly one third of the actual market rate, the conversion requirement means that exporters must increase prices to compensate. This amounts to a tax on exporters and hurts Uzbek competitiveness in world markets.

LACK OF INTELLECTUAL PROPERTY PROTECTION

Uzbekistan’s intellectual property laws approach international standards. Because of poor enforcement, however, these laws have not yet made an appreciable dent in the wide availability of pirated material. Uzbekistan is a consumer, but not a producer of such material. The fact that the state-owned Uzbek airlines shows pirated U.S. films in flights to the U.S. and elsewhere is emblematic of the government's disregard for intellectual property rights. On the streets, pirated audio and video tapes and compact disks are sold freely. The Tashkent cable television company (a U.S.-GOU joint venture) routinely airs pirated films. Industry has not provided an estimate of losses due to piracy in Uzbekistan.

SERVICES BARRIERS

The largest barrier to foreign services firms entering the Uzbek market is difficulty in converting the currency. For example, insurance companies must collect their premiums in Uzbek currency and may not pay reinsurance premiums in hard currency on the world market. Likewise claims may only be paid in the unconvertible Uzbek currency. These provisions can only be overcome by a special presidential decree granting the company the right to do business in dollars. To date only a state-owned insurance company, Uzbekinvest, and an American-Uzbek joint venture, Uzaig, have that permission. Although the GOU has created an insurance supervisory board, there is not yet a system of licensing insurance companies. This means that firms can currently only operate in Uzbekistan on the basis of a GOU decree. Uzbek as well as foreign private insurance ventures face these currency and registration difficulties.

The law grants state-owned companies a monopoly over certain forms of mandatory state insurance (i.e. mandatory insurance paid for out of the state budget). The GOU also determines which companies are permitted to issue each of the thirteen types of mandatory non-state insurance, but in some instances, foreign firms are allowed to compete.

Apart from representative offices, foreign banks may not operate in Uzbekistan except as partners in joint ventures with Uzbek firms. Banking and insurance firms with foreign participation are required to establish a charter capitalization fund of USD five million, whereas the GOU determines the required size of the charter funds of Uzbek firms on a case-by-case basis.

INVESTMENT BARRIERS

Two new laws, "on foreign investment" and "on guarantees and measures designed to protect rights granted to foreign investors" came into effect in April 1998. To be considered "an enterprise with foreign investment" under the new laws, a firm must be at least 30 percent foreign- owned and have initial foreign equity of 150,000 USD. At present there is no legal means for smaller foreign-owned companies to register. Although the new rules reduced these capital requirements from a foreign equity minimum of 300,000 USD, they are still high enough to exclude foreign investment by small companies, which have proven to be engines of growth and job creation in other countries. The GOU has postponed consideration of proposals to ease these requirements further.

Uzbekistan's tax code introduced in 1997 is a great improvement over its predecessor. However, it misses a few important provisions that are part of the business environment in most countries. For example, it allows no credit for VAT on capital goods, including plant, machinery and buildings. This puts firms operating in Uzbekistan at a competitive disadvantage compared to those in countries that do allow such credits.

Two tax provisions tend to increase labor costs for foreign firms to raise salaries higher than those paid by local firms. First, the GOU places a 30 percent "import duty" on the salaries of expatriate staff. Second, Uzbek staff face a 45 percent income tax on salaries as low as 1,200 dollars a year. While most Uzbek companies do not comply with their tax duties, foreign investors generally feel obligated to adhere to the law.

While there are no specific local content laws affecting foreign investors, the tax system differentiates among firms based on the local content of their products.

ANTICOMPETITIVE PRACTICES

Business people in Uzbekistan note that if they are engaged in a sales or services sector in which either the GOU, or a GOU-controlled firm is a competitor, they face more than the usual amount of bureaucratic hurdles and currency conversion problems. A recent example concerns a U.S.- Uzbek joint venture's shipment of pure alcohol--to be used in making vodka. The shipment had already been admitted to the country when the GOU issued a new decree requiring special licenses for such imports. Customs officials seized the shipment, by then already awaiting processing, for lacking the import license ex post facto. Customs then sold half of the alcohol to the state-owned vodka producer. In subsequent legal proceedings, the courts ruled summarily in favor of the state company and the Customs Service.

OTHER BARRIERS

American investors unanimously complain that they do not control their corporate bank accounts in Uzbekistan. Every routine banking operation requires official permission. Businesses find that enormous amounts of senior staff time are consumed processing simple transactions. The GOU imposes ceilings on how much money can be withdrawn to pay salaries. All purchases must be made via bank transfers because the GOU uses the banks to do tax accounting. It is not possible to possess a corporate expense account or petty cash. Withdrawing money to pay for airplane tickets, for example, is tedious or impossible. Uzbek companies handle this problem with salary withdrawals for non- existent staff. Western accounting practices prevent American companies from using these deceptive practices.

Currency restrictions and the lack of access to computers make electronic commerce virtually impossible in Uzbekistan; bribery and corruption are endemic; and businesses complain that they lack access under Uzbek law to international arbitration. Moreover, the judiciary in Uzbekistan is not independent. In the event of disputes, courts frequently favor firms that are controlled or owned by the state.